

Commentaries on Example Banks

Example Bank 1:

This bank has a value-oriented “Actual Strategy” ($\langle S \rangle$ of 37), and a “Calculated Focus” of 52, which is above the California average of 35 but which can be improved toward the PowerView target of $\langle F \rangle = 65$. The detailed tactical analysis indicates that “Liability Cost” is below the strategic support level (values must be inside the dark rectangle to infer strategic support), as is “Risk vs. Capacity” and “Cost vs. Equity”.

The apparent solution is to attract (possibly expensive) liabilities and deploy the proceeds in a mix of loans and investments designed to maintain “Liquidity” and “Portable Market Risk” as supporting tactics. Additional overhead will be required to support the loan volume, which cost must be anticipated. This solution is implemented in Fig. 7 and the result is shown in Fig. 8 of the general PowerView description, of which Example Bank 1 is a part; the “Calculated Focus” reaches 94, and the “Actual Strategy” moves only to 40, and the after-tax ROE increases 90% from the present level.

Example Bank 2:

Here the PowerView report shows a dramatic shift in the bank’s “Actual Strategy” (from 65 six months ago to the current 47, as shown by the difference between the “shadow” strategic rectangle and the darker, current strategy limits). The bank’s “Calculated Focus” of 61 is well above average and near the PowerView goal of 65. The tactical exceptions are (1) low “Liability Cost” relative to the “Actual Strategy”, (2) low “Portfolio Market Risk”, and (3) low overall “Risk vs. Capacity”.

The best tactical approach is probably to add market risk to the portfolio, which the (supportive) “Liquidity” measure allows, possibly raising market-rate liabilities to do so. Thus bringing “Liability Cost” and “Portfolio Market Risk” into the (darker) area of strategic support would simultaneously add interest margin and boost profitability, because no additional overhead would be required. “Calculated Focus” could be expected to improved dramatically”.

The amount of strategic “drift” in this bank remains a concern. Strategy is by nature a long-term commitment, and to change the “Actual Strategy” by this much in so short a period is unusual. Management should comment to the bank’s governing body on the reason(s) for the change.

Example Bank 3:

This is an example of a consistent value-oriented strategy (<S> of 30, very little “drift” during the past six months). The tactical exceptions (low “Risk vs. Capacity” and low “Cost vs. Equity” have in common the level of the bank’s equity, and so the first solutions to be investigated are to either (1) reduce equity through distribution; or (2) to acquire scale through targeted acquisition of institution(s)/related businesses. Either will push the “Calculated Focus” well above the PowerView target, and will increase profitability, possibly significantly.

ATTACHMENT A

P O W E R V I E W

The key to a strong

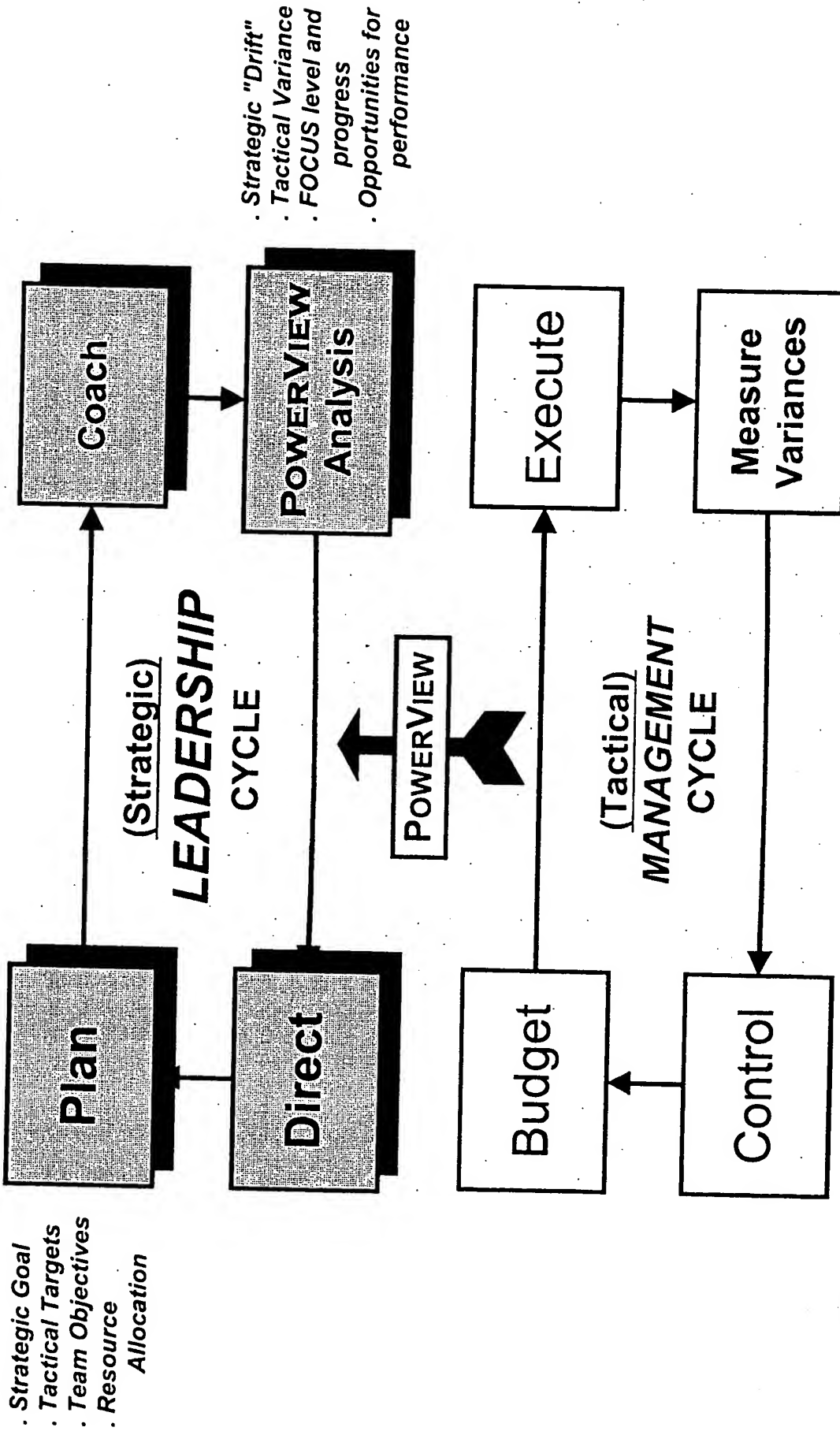
RETURN

on

your Strategic Planning

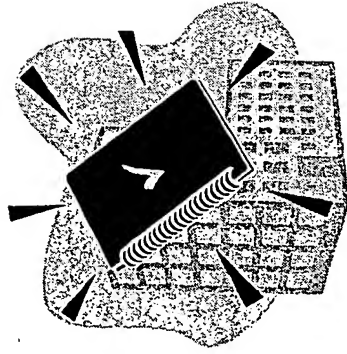
INVESTMENT

POWERVIEW lets you set "hard" targets for your bank's Strategy and Tactics, and then gives you progress reports on reaching them. With a view from this higher level ...



... **Managers** can move up to being **LEADERS**.

Every Bank has TWO Strategies:



The one set out in its STRATEGIC PLAN.....



.....and the one being EXECUTED by its staff.

PowerView lets you set concrete TARGETS right in your STRATEGIC PLAN, and then later measure actual RESULTS. You can quickly and clearly identify any parts of the team where management coaching will help achieve the Bank's strategic goal - and *bring these two strategies closer together!*

P O W E R V I E W

**Step 1. Setting Targets, and then
Communicating the bank's STRATEGIC PLAN:**

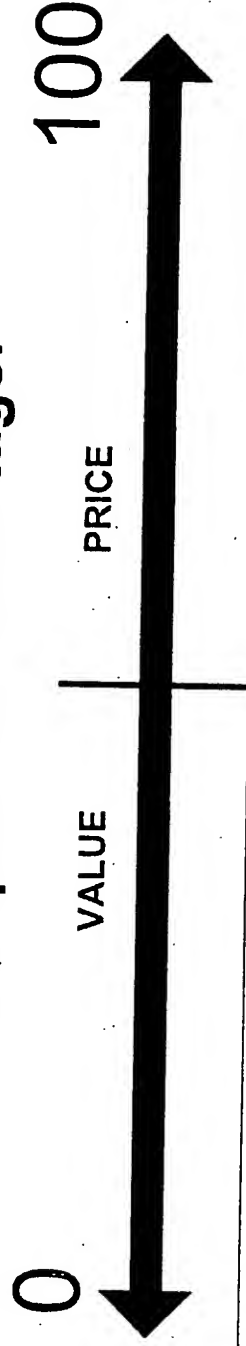
The STRATEGIC SURVEY

"Drill down" to your Strategic CORE: STRATEGY IS MAKING HARD CHOICES!

STRATEGIC SURVEY A guide to planning a Focused Strategic Index for your institution ©2002 PQMR Research		By marking <u>one</u> box on each line, indicate how your institution will achieve long-term success in the market.		Contact NAME, Institution, Address:	
I think prospective clients will choose us over our competitors because.... Our products are flexible, and are often customized. ** Our prices can't be beaten, for what we offer. We aggressively advertise our products' benefits. The market knows us, and knows we are strong and trustworthy. We meet each client's special needs in a timely way. We measure and reward repeat business. We take care of clients as friends. Our key business is often done outside our offices. Our strength is a valuable asset that we use to help our clients. We focus on one-on-one business development. We diversify to control risk. We can, and will, design a "product" for each client.		Strongly Agree <input type="checkbox"/> Agree <input type="checkbox"/> Disagree <input type="checkbox"/> Strongly Disagree <input type="checkbox"/>		I think prospective clients will choose us over our competitors because.... We package products to help our clients achieve their goals. Our clients always get their money's worth. Our professionals take our products to our clients. Prospects are already familiar with products like ours. We're proud to say "Once a client, always a client." We are a "deal-oriented", responsive institution. Our clients "retain" us, as they would a lawyer or doctor. Our facilities are a key part of our marketing. We are a reliable, equal partner in our clients' success. We have a broad market communication strategy. We are skilled at managing risks, one at a time. Our product line is clear, complete, and "cutting edge".	
** How will my Strategic Survey responses be used? The "catch phrases" in the Survey are typical of strategic communication, from the boardroom to the back room, inside - and outside - of the organization. They aren't good-bad, right-wrong on any scale - they're only important because a focused strategy can't include both ends of any of the choices. For example, if you mark that first choice:		Our products are flexible, and are often customized. **			
your answer will contribute to a high "Strategic Index", indicating that efficiency (the ability to profit at a low price) is a critical strategic goal. If you had chosen the other alternative, your strategic score would be lower and product/service features - "value" - would have been more strategically important than minimum cost.		Our products are flexible, and are often customized. **			
We design products to help clients achieve their goals.		Our products are flexible, and are often customized. **			

The Survey results show your PLANNED "Strategic Index", ...

... and it will fall somewhere on a scale of 0 to 100. A Strategic Index below 50 shows an emphasis on **VALUE** in appealing to customers, while an index greater than 50 indicates a strategy that relies heavily on **PRICE** for competitive advantage.



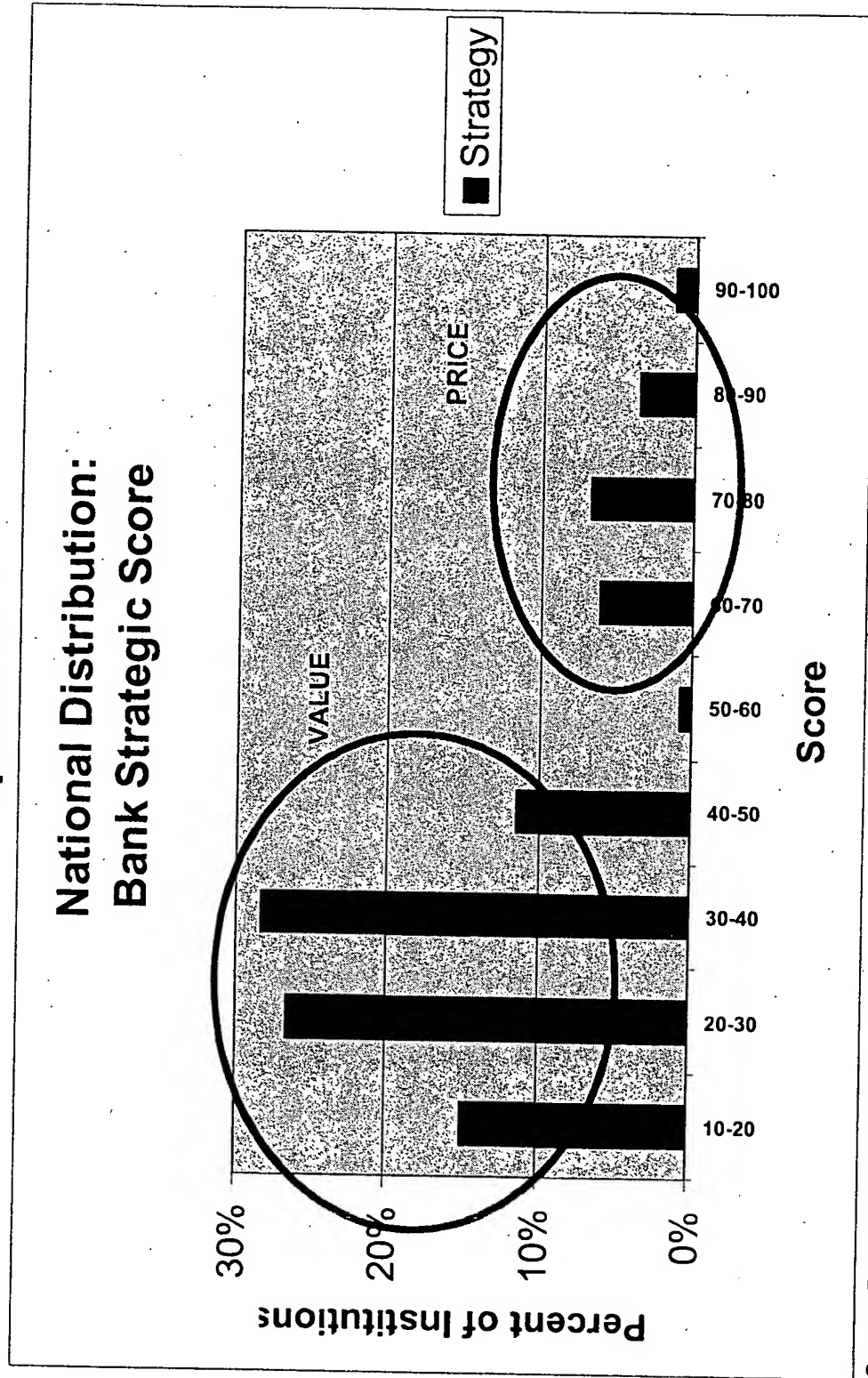
VALUE strategies rely on differentiation from competitive offerings using design features, convenience, reputation, association, or some other attribute that brings advantages to the customer that he cannot obtain from competitors.

A **VALUE** strategy emphasizes product design, a relationship with the customer, attaining customer goals, quality, service, low risk, and brand identity through aggressive marketing.

The **PRICE** strategy emphasizes the equivalence of products and services among competitors - and relies on lower price to attract customers.

Successful pursuit of a **PRICE** strategy requires emphasis on efficiency: the bank must be able to earn a profit at the lowest price in the marketplace. Risk management is very important, as are flexibility, transaction size and volume, personal sales and related incentives, and market intelligence.

"Real world" strategies have both PRICE and VALUE pieces ... but almost all banks choose a clear emphasis: there are very few banks in the "middle" of the Strategic Spectrum!



Source: PowerView interpretation of FDIC data on US Banks as of June 30, 2002

P O W E R V I E W

**Step 2: Measure ACTUAL STRATEGY
then
Manage for TOP PERFORMANCE:**

The PowerView System

PQMR's POWERVIEW

Bank of Example

3Q2002*

<F>ocus (61)

Vol. Liab./Inv.

Liab. Cost Vol.

Liab. Cost

(Port. Mkt. Risk)

Acct. IRR

(Liquidity)

Risk vs. Capacity

Cost vs. Equity

"Tails" show change BY TACTICAL MEASURE, allowing directed management coaching. Red indicates an improvement opportunity

"Price"

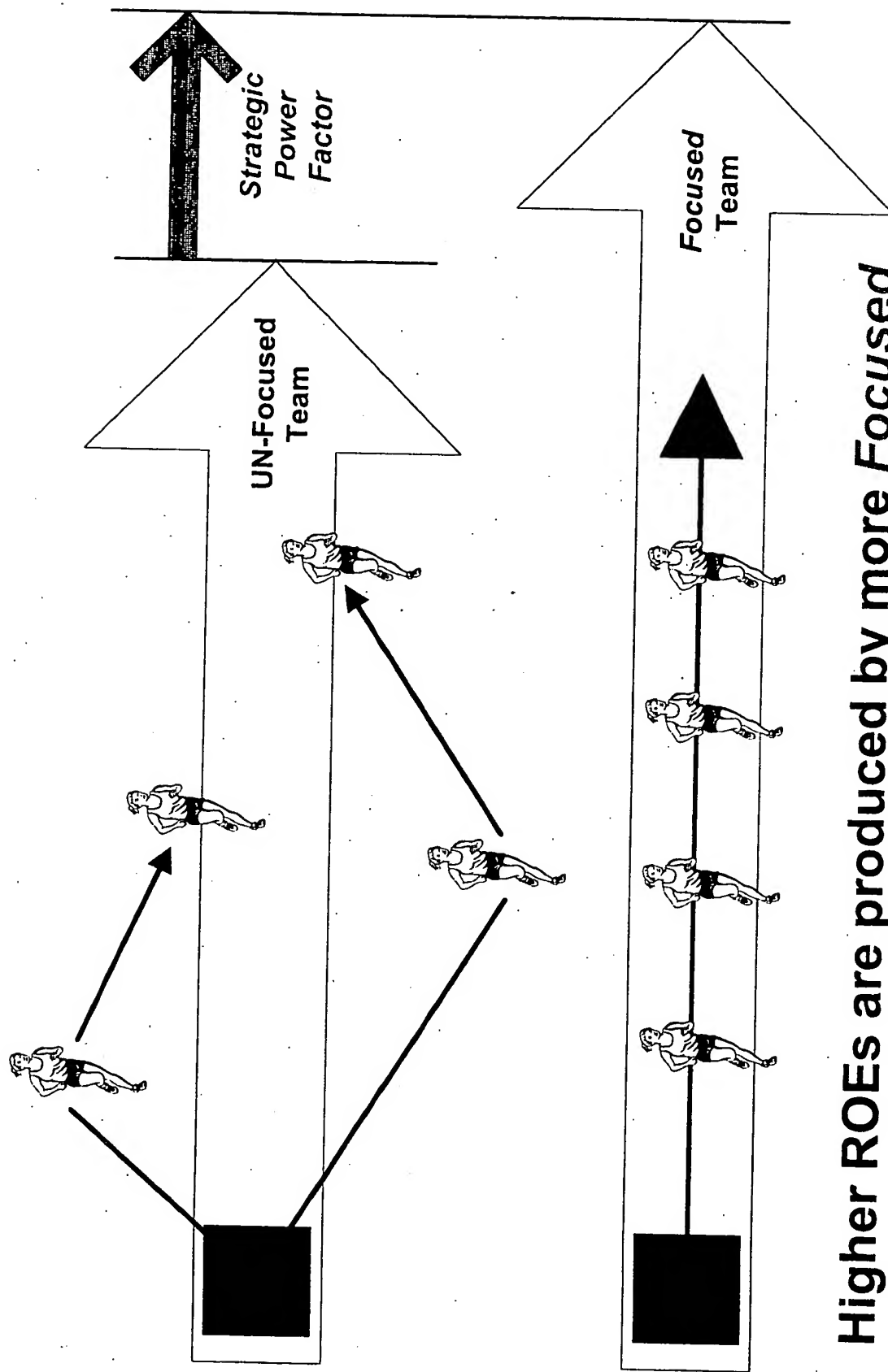
"Value"

6 mo. "Drift"

Strategic Market Position

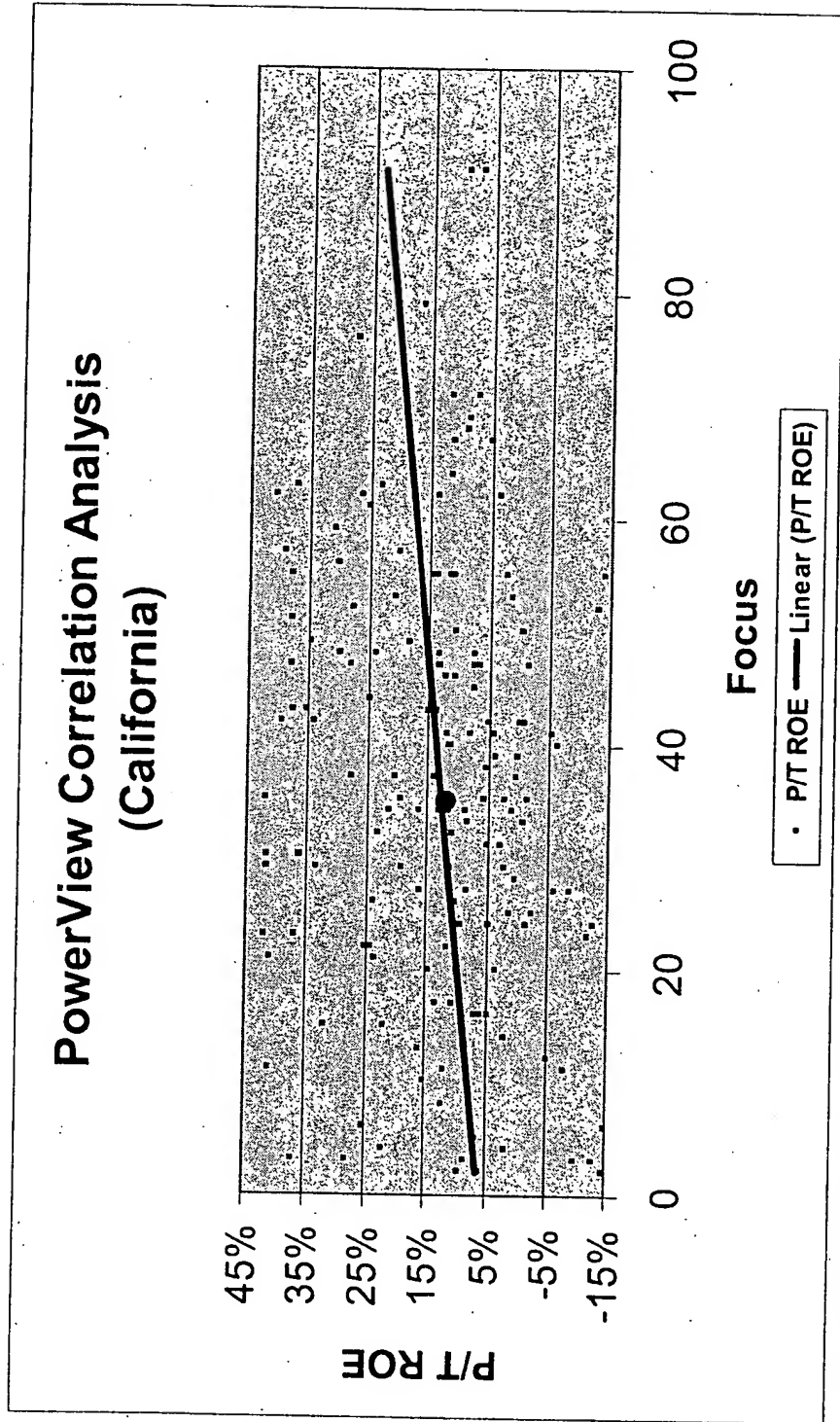
pmr

Focus measures strategic understanding and commitment:



Higher ROEs are produced by more *Focused* teams, as shown by actual results ...

... shown here for California banks. 10-point higher team Focus, on average, produces a 2% jump in P/T ROE!



Source: PowerView interpretation of FDIC data on California Banks as of June 30, 2002

● Average California Bank Focus (35) and P/T ROE (12.7%).

POWERVIEW measures and reports team *Focus* on the bank's Strategy - BY PLAYER - from 0% *Focus* (no support) to 100% (full support).

PQMR

... an efficient "What-if" feature. With this tool, you can evaluate tactical options, and then clearly communicate both individual and team goals.

Variable	FR<3m.	3m<FR<12m.	Total	MBS	1<M<3	3<M<5
<u>Cash & DFB (demand)</u>			18,165		0	20,969
CHANGE				CHANGE		
NET			18,165	NET	0	20,969
<u>Interest-bearing Deposits</u>		0	0	HTM	0	0
CHANGE				CHANGE		
NET		0	0	NET	0	0
<u>Investments - AFS</u>	6,000	2,963	10,889			
CHANGE			87,073			
NET	6,000	2,963	15,000			
<u>Investments - HTM</u>			102,073			
CHANGE		0	0			
NET		0	0			
<u>Loans</u>	146,087	0	0			
CHANGE		97,681	21,930			
NET	20,000		35,000			
<u>Other Assets</u>	166,087	97,681	21,930			
CHANGE			316,919			
NET			10,044			
<u>Fixed Assets</u>			10,044			
CHANGE			10,573			
NET			10,573			
<u>Core Deposits</u>	238,623	18,366	21,891			
			316,583			

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ROE Effect
2.6%
\$1,311

The impact on A/T Profit and ROE is calculated as you work, and so the bottom-line value of better Focus can be seen *instantly*.

The **POWERVIEW** Partnership Commitment:

From Management to Leadership, you can count on

- *An initial Strategic Plan Review including a Planned versus Actual Strategy evaluation and a strategic Policy Analysis*
- *A semi-annual PowerView Report, showing Actual Strategy, Strategic Drift, Focus and Tactical Performance*
- *An on-site, personal presentation of each Report, and a discussion of your bank's position with a PQMR professional*
- *"Benchmark" results for comparison to internal risk management systems and policies, per regulatory guidelines*
- *Annual "Peer" analysis showing your bank's position in relation to the state's population of banks*
- *Up to three comparison **POWERVIEW** analyses - Strategy and Focus - of your choice of banks anywhere in the country*

And by specific arrangement, a PQMR professional will help you make your next Board Strategic Planning Retreat a real Team-building event!